" Mahindra & Mahindra Financial Services Limited Q4 FY2020 Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Mahindra Finance Q4 & FY2020 earnings conference call hosted by ICICI Securities. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhijit Tibrewal. Thank you and over to you Sir!

Abhijit Tibrewal: Thanks Steven. Good evening everyone. I take great pleasure in having with us here today, the senior leadership team of Mahindra Finance. We have with us, Mr. Ramesh Iyer, Vice Chairman and Managing Director, Mr. V. Ravi, Executive Director and CFO, Mr. Rajnish Agarwal, EVP, Operations, Mr. Dinesh Prajapati, SVP, Treasury and Corporate Affairs; and Mr. Rajesh Vasudevan, SVP, Accounts. They are here to discuss the company's performance in Q4 FY2020 and the business outlook going forward. We will have a Q&A session post this discussion. Let me now hand the floor over to our honored guest from Mahindra Finance. Over to you Mr. Iyer to share your opening remarks on the results!

Ramesh Iyer: Good evening everyone. Firstly sincere apologies for delaying this call we were supposed to be having it at 5:15 pm we are one hour behind mainly caused by our inability to transfer the results to the exchanges and that got it a little delayed. Nevertheless my sincere apologies and thank you very much for joining this call.

I would not really go into line-by-line item numbers that must be already with you and through the Q&A we can actually handle it, but I would more like to narrate on where we are, what we see on the ground and where do we see going from here. So first I think it is now more than a month that the lockout is and very happy to report that around 500 of our branches are already up and working and they have been opened in the green and orange zones of the country and as I said we are up and working and we have started seeing walk-in both for asking for new loans as well as for repayment of installments, so that gives us really a lot of confidence that things are beginning to get to some normalcy and over a period of time for sure it will settle down and things will begin to happen.

We do very strongly think that given the good harvest in this season, most of the states, the farm cash flow is holding up and we are already witnessing it through collections during even these period. As we speak if we were to look at what percentage of our consumers actually opted for the moratorium offer, I think about 75% plus did take the moratorium, but the ones who did not largely belong to the farming community where they felt that their cash flows will improve and they would be able to pay. The real question was how will they come and pay or how will we go and collect and therefore when we gave them options of depositing in the banks or digital transfers, etc., some of them have taken that option and

April did witness a decent collection and May 15 days of collection has already equal to or slightly surpassed even what we collected in April. So to that extent we feel extremely confident and happy that consumers are coming back to normal even in that front.

We have said this before and we continue to hold on, even before the COVID impact we had said any normalcy to business volumes we could see only post October that is the festival season and it continues to appear that it would only commence around that time because the BS-IV or BS-VI on the vehicle front is still getting sorted out before people can decide to buy new vehicles. The tractor side is already showing traction. We believe that the pre-owned vehicle segment will definitely be the one, which will show better traction during this period, people do want to acquire a pre-owned vehicle rather than investing on a new vehicle so that could become a turnaround story or could become a story, which will emerge much faster. So we think that while things will begin to happen, but by the time we can talk of some normalcy in terms of volumes, etc., we would clearly see that it will be post October where we would start to see this. These are times where we believe our priorities are to ensure that the employees do come back with confidence to work and that they do not have any sentiment issue or any fear issue before they return to work, so there is a lot of employee engagement program in terms of our communication to them, etc.

During this period we have definitely focused on areas of where we could really control and bring down costs and in one of our earlier calls I had mentioned about this being our area of focus. We have identified about 8 or 9 focused areas where we could bring down cost and some of them are bringing down the cost of our branch rent, we are in negotiations with various landlords and we do get very, very positive signals from them of agreeing to bring down the rents by 20%, 25% or so, so that is one very clear focus area.

I think we are looking at all the outsourced contracts that we have for either security or for the BPOs, etc., and we do believe there are very clear opportunities of even renegotiating prices around all of that. So we are confident that with all our efforts towards cost reduction programs over a period of time, we will see the benefit of it in this year as we grow through the year and reach the year-end, we would see a decent benefit coming out of it. If I have to just put a number around it, we believe that 40, 50 basis point savings with all efforts put in place on a full year basis is definitely possible, so that is going to be one very strong focused area.

As far as the overall collections are concerned, as I said while the farm side has started to respond positively for repayment, etc., I think the commercial vehicle side, the aggregator taxi model, which are driver dependent, mainly the businesses, which are driver dependent where the drivers have gone back as migrants to their respective hometowns could take a little longer to bounce back as an earning potential. Even if things were to normalize let us say the lockout is to be lifted by end May or so, by the time people come back to work and put back their vehicle on earnings and they start to earn and start to repay could take another quarter or so. So we will have to live through this pain point for another quarter at least before we can say everything has returned back to normal. It is in this direction that in the accounts for March 2020 we have taken a forward-looking extra provision based on what we see is likely to be in the market. We do believe that we have taken an aggressive stand to make that provision and we could benefit out of it as things start to change and we could get the reversal benefit as we go along.

So far we have not heard nor do we believe that the customers may want to surrender their assets and things like that I do not think that is going to be the story because most of these assets are earning assets, they are life giver products for many of our consumers. We would see definite delay, but we do not see them a default or a surrender arising out of that. So if I have to therefore conclude from where the business is going or where the collections would be, I think given a quarter or two things should look much, much more normal and as we have taken some aggressive stand in terms of extra provisioning, etc., should benefit us substantially in that direction. We do not see too much of competition arising during these times because if you do not have your physical branches and things like that in those areas it is not easy for someone to now come and make a beginning for a business and therefore we think the existing players will be benefited from the volumes while the volumes overall are definitely likely to come down. I think the year 2020 will be a year, which cannot be compared to the past and made a reference of whether it is a growth or degrowth. I think year 2020 will have to be analyzed from a point of view of how the business is getting back to normalcy and what are the fundamentals of the business, which works in favor and what are the changes that we are willing to bring in to make it work in favor. So the digital movement in terms of giving opportunities to the consumer to be able to digitally repay or to even digitally demand loans, which we can analyze, assess and provide them will definitely be one of the focused areas from where you will see change from our side.

We also very strongly think given a very large customer base and a very local employees who has a very local knowledge will be an added advantage during this period because our existing customers may want short-term loans, which we had launched as a program, even 6 months, 8 months back for our existing customer with excellent track record and I think that is something that will help us grow during this period, but we will be very selective on whom we want to provide such product, but we do see that as an opportunity. I think the important area to really focus around these times is also going to be the liability side in terms of how well, how prepared are we from the liability side and I want to confirm that even if this situation was to continue the same way for the next 6 months, we are very, very comfortable to make a statement that we have adequate arrangements for liquidity and we would be able to meet all our liabilities including interest payments on time, we would be able to meet all our fixed costs on time, we do not see a problem on the cash flow front even if we were to assume that the current situation was to get over extended for a longer period of time.

I think these are times where one has to have absolute control over what is happening, but more importantly one has to be very clear and must have a very high ethical and governance practices. These are not time to take any shortcuts or anything. I think we would not come under any of those pressures. I think we will ensure that what we do is absolutely transparent from a consumer perspective and we do believe that will put us ahead of many in terms of our relationships with OEMs, in terms of our relationships with dealership community as well as with our existing customer base.

When we were talking of costs, the other area of costs that we would also look at is on the employee front. We do not envisage a reduction of employee or a salary cut as an option to look at, but recasting the salary and changing the mix between fixed and variable is one option that we are very strongly working on and we do believe that, that would help the company save substantial amounts if the overall performance was to suffer due to market conditions then the company may not have to incur that kind of a cost. So the larger theme that I am trying to drive clearly is to bring appropriate controls and to ensure that the cost is kept well under control, liquidity is appropriately focused and therefore adequate liquidity is made available to meet all liabilities including fixed cost requirements, to focus on the business growth in areas of opportunity where we think the customer needs vehicle, which is a livelihood and an earning product for them and lastly to ensure that in areas where there are earnings commencing to happen where the customers are already beginning to earn that we ensure our installments are well collected and controlled and given all of that and with the stance that we have taken to have higher provision already made, we do believe that the year 2020 would see further improvement to our asset quality, a better coverage of our NPA ratios and a better management of our collaterals.

With all of this theme we would think year 2020 would be a year of honestly correction and investment, it would be a year of revisiting the processes and reaching controls on costs that we are envisaging and it would end up as a year where we would have built substantial platform to be able to grow from there into the new era that will open up post this situation, which we believe may commence post festival. I think I would stop at that as my initial comment and we are open to questions, which we would take on a turn-by-turn basis. Thank you.

Moderator: Thank you very much. The first question is from the line of Mahrukh Adajania from Elara Capital. Please go ahead.

Mahrukh Adajania: Sir what would be your total liquidity on the balance sheet right now and how much would you have raised in the last two months, also what would be your repayments till September and till December?

Ramesh Iyer: Dinesh do you want to take this question quickly with data?

Dinesh Prajapati: Yes. We have shared in our presentation also. We have approximately Rs.4500 Crores of liquid investment available as of today and we would have raised in the last couple of months more than Rs.3000 Crores through various modes in the form of term loan, NCD, securitization, all put together. We have given even calendarization of maturities, which are coming up in May up to September, if you can refer to our presentation.

Mahrukh Adajania: Sure and up to December would you have the amount roughly?

Dinesh Prajapati: I will have to go back and refer check it, but roughly every month there will be a maturity of close to Rs.1000 Crores.

V. Ravi: Dinesh you can share it offline with all the investors later.

Dinesh Prajapati: Sure.

Mahrukh Adajania: How much would you have raised from the TLTRO, Rs.2000 Crores right?

Dinesh Prajapati: No, from April to current date we have raised around Rs.675 Crores.

Mahrukh Adajania: Sorry, Rs.675 Crores and the rest are all term loans and could you share any incremental rates on borrowing or the marginal cost of borrowing just now versus pre-COVID?

Dinesh Prajapati: So last, the bonds which we have raised on the TLTRO are in the range of 7.5%-7.65%.

Mahrukh Adajania: Okay and the term loans?

Dinesh Prajapati: Term loans are MCLR-linked, so whatever is the present MCLR.

Mahrukh Adajania: Thanks.

Moderator: Thank you. The next question is from the line of Ritika Dua from Elara Capital. Please go ahead.

Ritika Dua: So, firstly, on the moratorium bit, sorry I missed a bit of your opening remarks so what is the percentage of your borrowers who have asked the moratorium and the second question is some understanding on the provisioning that you have taken, which you have shared that, we think is obviously quite conservative in nature maybe some understanding on what went behind the number?

Ramesh Iyer: So in terms of percentage of customers who have opted for moratorium would be around I said 75% odd and as I also quantified it by saying that largely the farming community as well as personal use, professionals like, the local teachers, doctors and those kind of people who have a fixed income are the ones who have not opted for the moratorium. As far as the logic or the reasoning behind this kind of provisioning, I think we have looked at it from three or four angles. I think one is we looked at from various segments, which are the segments of customers who may take a little longer in order to bounce back to normalcy given the current condition, that is one. So as I said commercial vehicle or the taxi aggregator are the kind of segments we believe could take a little longer for that matter. Anyone who is in the passenger carrying business, initially people would resist to travel in that kind of mode with more people in, so therefore the volumes of business could come down or number of passengers traveling could come down. So we looked at that as one approach. The second that we have looked at as an approach is, given that during this one-year period we would more like to partner the customers and would not resort to any kind of repossessions, etc., that would therefore, could mean going forward there could be some drop in the vehicle price can happen at a later stage if you decide to take back from vehicle. So we have factored in some possibility arising out of that. The third we have looked at is from a zone, whichever customers are in red zones and are in such kind of applications, we have even made a little more aggressive provisioning because in the red zone our belief is, it would take definitely a little more longer than obviously the green and orange. So putting all of this together we have kind of felt there is a need for the percentage of ECL to move up from 30 to 35 and in some cases going up to 40 if ther are in red zone, etc., and that has led us to this number, which we have made a provision for.

Ritika Dua: Sir, just one thing, on the red zone, what percentage of our branches or what percentage of customers are there today in the red zone?

Ramesh Iyer: 28% to 30% of our customer or branch or assets whatever you want to call it, around 28%, 30% would be in red zone, but it is again important to understand, red zone does not mean that everything is not going to happen there. So it will just take a month more than maybe or a 2-month more than a green zone possibly, but yes it is about 28% or 30% of our customers would be in that location.

Ritika Dua: Okay and does the 75% number that you say in terms of value of moratorium?

Ramesh Iyer: Both in terms of value and number, more or less they would be same maybe 2%, 3% here and there.

Ritika Dua: Thank you.

Moderator: Thank you. The next question is from the line of Karthik Chellappa from Buena Vista Fund Management. Please go ahead.

Karthik Chellappa: The Rs.560 Crores of provision that you have taken for COVID, how will that split, geographically? Which are the states that are contributing to the majority of this provision?

Ramesh Iyer: I think east would have contributed little less because the east has got a lot of green zones but as otherwise I would think that north, west and central would almost take away 60%, 70% of this maybe, but it is more than geography, as I said we have looked at the red zone as one approach, we have looked at various applications, which are likely to suffer as the second approach and our partnership approach of not wanting to take away the assets, but rather give time to the consumer to earn and repay are the three approach, we have not really looked at state to state, but definitely once you look at red zone, the state does come into play automatically. In that context, I would think east would be the lowest and south, west, central, north could almost take away equal share possibly.

Karthik Chellappa: Is this a case where you have identified a certain stock of loans and have taken 40%, 50% coverage straightaway so that is the confidence that gives you that in the second half of year as things recover, this provision should be adequate or is it just like a substandard provision level on a larger stock of..?

Ramesh Iyer: No. As I said, we have applied the three yardsticks and if those assumptions were to kind of start to improve then the benefit would flow to us. Now whether the assumption should turn out positive in 3 months' time, 4 months', 6 months' time, is something we will have to wait and see how things open up. But clearly we do believe that for example, we have taken in green zone let us say, the transport application or people movement application, we believe that, that could turn around much faster than in a red zone.

Karthik Chellappa: Okay great and Sir at this point you have not taken any moratorium from any of the banks, you have not availed any moratorium?

Ramesh Iyer: No, we have not taken.

Karthik Chellappa: The commentary on tractors I think the margin was positive, in terms of the other asset classes whether it is utility vehicles, cars or CV, which do you think will be the earliest to recover and which will be the last, probably I think CV is the last?

Ramesh Iyer: CV could be the last, but even in CV, LCV and single truck owner driven operators will bounce back faster than the fleet operator because fleet operator problem is also going to be of the driver's availability, so therefore that could take longer. I think the aggregator taxi operations, because they are very semi-urban, urban-focused could take a little longer, but the faster bouncing ones like tractor is first maybe, followed by pickup, followed by 3-wheeler, goods transport, the small packet transporters, I think these kind of segments will bounce back faster. See we should not forget that in rural India the mode of transportation for people still remains in the hands of private operators. There are not too many public transport systems. Typically what would happen is number of people now traveling by those vehicles actually will go down and that could honestly speaking can become an opportunity for more vehicles to be sold and since that could possibly be a temporary opportunity, people may look at second-hand vehicle for that purpose rather than a new vehicle for that purpose. Pre-owned vehicle demand is likely to go up, that is for sure.

Karthik Chellappa: Got it very clear.

Moderator: Thank you. The next question is from the line of Umang Shah from HSBC Securities. Please go ahead.

Umang Shah: I just wanted to understand, the reconciliation between IRAC norms and Ind-AS which was given in the presentation there appears to be a shortfall in the Stage 3 provisions, but obviously there are excess provisions in Stage 1 and Stage 2, so how should we read into it, do we need to kind of fill the gap on the Stage 3 provisions in coming quarters?

Ramesh Iyer: No. So stage 3 is based on the expected credit loss, so really one does not have to fill it up, we have taken some extra provision in Stage 3 assuming or estimating that the expected loss could slightly go up in the current situation and which is what I was explaining that if situations were to improve faster we could even get the benefit of reversal over a period of time. So those really are not comparison, when RBI wanted us to compare both it is to ensure because earlier there was no Stage 1, Stage 2 per se if you really look at it, so therefore they wanted to ensure that the overall provisions should not fall short and if they were to fall short, they wanted us to make an extra provision if need be. So in our case, since we are already carrying provision higher than what we would have otherwise carried under the earlier regime, that need has not arrived yet.

Umang Shah: Okay and just one question on operating costs. Given that there is a very sharp fall in opex this quarter, are there any cost deferments, which have happened?

Ramesh Iyer: No. There is no cost deferment whatsoever. As I said on the people front clearly if there are incentive programs, if the performance has not been there in March or in February or whichever month then those incentives are not required to be paid either to dealer or to employees or anybody for that matter. Similarly as I said we have been in the focus as to reduce cost for the last 6 months. I would not say that everything is already put to practice, but the benefits have started flowing in for sure, so that is the second one. And the third one

I think we explained I think in the last call or maybe something before that, that there was this fixed cost coming out of gratuity or whatever because of the recasting of the compensation, which was done. When restated I think there is some benefit arising out of that, but there is absolutely nothing which have been deferred, which will come and hit us in the next two quarters or something, nothing of that kind.

Umang Shah: Thank you and all the best.

Moderator: Thank you. The next question is from the line of Anubhav Agrawal from ICICI Bank. Please go ahead.

Anubhav Agrawal: I wanted to know what is the current collection efficiency across different products and how it has changed from the pre-COVID situation to the current situation?

Ramesh Iyer: I do not have it by product, but I can tell you that in April our efficiency was something like 15%, 16% as against we thought it would be 0 virtually, so there are people who opted to pay through ACH and direct deposit, etc., and my understanding is, out of that a decent percentage would come from people who earn out of the farm cash flow. So for us May is concerned, in the 15 days we have already reached the collection that we had in April, so we would expect that May would actually be almost double of April, which is an excellent signal from the marketplace. There again the collections would largely come from farm cash flows mainly in states like MP, UP, etc.

Anubhav Agrawal: Okay thank you.

Moderator: Thank you. The next question is from the line of from Nischint Chawathe from Kotak. Please go ahead.

Nischint Chawathe: I just wanted to understand the GNPA has typically comes down for you between the third and the fourth quarter, but somehow it has not happened this year, should we really think about it?

Ramesh Iyer: No. Very honestly, our expectation was that we would close GNPA exactly like last year, but unfortunately the major part of March was defeated and we were actually cruising very, very well towards the same and suddenly comes all of these events and it just gets stuck. My very strong belief is that once we are out of this situation you could see a sharp fall in that happening as the market condition normalizes. So I would think something that we could have done in March, has got by force postponed. Because in March what happens is many at times even repossession release is very high because we do bring back the assets, customer comes and settles and takes it back, so none of those activity could actually be performed in March and all of us know that March for us even within the fourth quarter

March is an extremely large month, so I would think we would have lost at least if not more 1.5% correction possibility of the gross NPA for sure.

Nischint Chawathe: That may be the similar trend in housing business as well?

Ramesh Iyer: Yes. Housing, again even if the customer had the money, he would like to store not knowing what is the next in future. So there also you will see a similar correction happening as things open up. But unfortunately this happened in March, suppose if you were to sail through March and if we were to get into the situation in April, we would have been talking actually of a very different number.

Nischint Chawathe: Sure and just one thing, Stage 3 coverage at 31% so this is including Rs.500 Crores?

Ramesh Iyer: Yes, out of Rs.500 Crores maybe Rs.400 odd Crores would have gone into Stage 3. Rajesh, is that right?

Rajesh Vasudevan: Yes, Rs.474 Crores.

Ramesh Iyer: Yes so out Rs.574 Crores, Rs.474 Crores would have gone into Stage 3 to push up the coverage to 31%.

Nischint Chawathe: Your Stage 1, Stage 2 coverage quarter-on-quarter is stable so does that mean that the Stage 2 numbers are stable quarter-on-quarter?

Ramesh Iyer: No, so once you get the moratorium benefit then they stayed there it did not move forward.

Nischint Chawathe: Okay and most of the extra provision has been pushed into the Stage 3 category?

Ramesh Iyer: Yes, which is why I explained how we went product wise, and zone wise and application wise.

Nischint Chawathe: Sure that is it and just one final question if I can and this is on the expenses side, there has been a sharp decline, so how should one think about it?

Ramesh Iyer: No. So as I said, the company's focus has been on the cost definitely and we have been trying to explain as to when would we start to get the benefit and I must tell you that this is not over yet. We are still focusing on as I said on 3 or 4 major items of cost savings and as confirmation none of the expenses, which reflected as reduction here, is something which is in the nature of postponement, none of them. So there actual reduction that has happened and we are focusing on at least 3 or 4 very strong areas of production, which we will see going forward, we will get the benefit of it through the year.

Nischint Chawathe: Sure great. Thank you very much. I will come back in the queue.

Moderator: Thank you. The next question is from the line of Deepak Poddar from Sapphire Capital. Please go ahead.

Deepak Poddar: I just wanted to understand in terms of your comment was the demand scenario over next 6 months, how do you see demand scenario shaping up?

Ramesh Iyer: As I said in the order of possibility I think tractor demand is already beginning to be seen. So for us the small pickup, the small 3-wheeler for goods carrying, the LCV will be the segment, which will see traction for sure. We would start to see pre-owned vehicle definitely showing good demand and traction, but supply may not match that demand I would believe so. And on the commercial vehicle side it will be a single truck or owner-driven truck will possibly show some traction. I would put it in that sequence, but commercial vehicle would definitely take much longer. The passenger car purchase could take longer, but commercial applications, small vehicles or midsize vehicles could show faster traction. Tractor would definitely show much faster traction.

Deepak Poddar: Understood, but you still be targeting growth in this year FY2021, maybe in single-digit growth or a double-digit to low double-digit growth?

Ramesh Iyer: I do not know. You will compare this growth to which year because April, May, June, July virtually would be low volume or no volume kind of a month as I see from the market. So if we will have to look at month-on-month growth over previous year, post October one can see some stabilization, but otherwise we would like to look at 2020 as a year where things not go well at the marketplace and then beginning to improve from October is the only way we will look at growth, not growth as compared to previous year as a percentage and fixed like that.

Deepak Poddar: Fair enough. That is it from my side. Thank you.

Moderator: Thank you. The next question is from the line of Sanket Chheda from B&K Securities. Please go ahead.

Sanket Chheda: Sir, I just missed the cost part, the fund which we raised under TLTRO so it was 7.5 to...

Ramesh Iyer: 7.8. Dinesh 7.5 to 7.8, right?

Dinesh Prajapati: 7.5 to 7.65.

Sanket Chheda: What would be your SMA-2 as a percentage of total book, if you can you give the number?

Ramesh Iyer: Rajesh, do you have that with you, SMA-2 to percentage of total book. We will just give it to you; somebody will just pull it up.

Sanket Chheda: Okay and last one, this increased in provisioning that we have made 474 towards this Stage 3, that is mainly on the back of thinking that expected credit loss will go up or the loss given default will go, but no provisioning has been done from incremental delinquencies that might come up in the next two to three quarters is that right?

Ramesh Iyer: The moratorium has been given up in May and we definitely expect that between June, July, August the customer will start paying their installment, may not all three installments, but at least out of the three they may pay one or two, so they are not expected to move up in the ladder. But whereas the ones, which are already in the zone beyond 90 days to whom no other concessions have been given and they are in the same market and earning the same type of money, therefore we do expect that their built up would be little more and by the time they either repay or they surrender or we retake the asset and sell, etc., there could be some delinquency that could arise out of that. But if things were to start to improve, like every year we see out of our NPA of closing at least 40%, 50% of it gets solved during the same year. So we believe that could take little longer or little stretched and we have therefore estimated and made a provision and that is why I keep repeating myself that if we were to start collecting from those accounts, the benefit of the reversals could be higher.

Sanket Chheda: Okay Sir. That is all from me. Thanks.

Moderator: Thank you. The next question is from the line of Roshan Chutkey from ICICI Prudential Mutual Fund. Please go ahead.

Roshan Chutkey: Thank you so much for taking my question. Firstly what percentage of our cars and UV segment are the tourist operator segment, where the business potential has kind of got deteriorated significantly and similarly if you can share what percentage of our customers are the farmer segment, teacher segment like you said, which is doing extremely well, cash flows are very strong basically if you can just share some numbers around that?

Ramesh Iyer: My numbers may not be exactly right, but I am kind of you know based on various reviews that have captured some numbers, but I think the taxi segments should be around 10%, 12%, the farming would be about 25% odd. The self business or what you would call it as self-employed if you may call including traders would be around 15%, 18%, would be the broad kind of a breaker.

Roshan Chutkey: And the rest would be?

Ramesh Iyer: We will have various category like contractors would be there, fleet operators would be there, so then it all splits itself into 5%, 3%, 7% of different, there could be mix some who are in farm plus haulage, so then we do not put them under farm community, so like tractors there are large number of tractor owners who has three, four months of farming and another seven months of contracting.

Roshan Chutkey: 9%, 10% of our CV vehicle business, what percentage would be single truck operator?

Rajnish Agarwal: Roughly 4% will be in FTU.

Roshan Chutkey: Why do you think that pre-owned vehicles will do better?

Ramesh Iyer: For very simple reason that let us say earlier one vehicle carried seven people or 10 people, today is going to carry only 3, because the number of people are the same it is just that in one vehicle the number of people are going to reduce, so the number of vehicle required will go up. Now nobody is going to forecast that this is going to be a permanent reality that in this country only four people will travel in the rural area, but for the next 6 months, 1 year that could become the necessity. So instead of buying a new vehicle for this purpose, people will buy a pre-owned vehicle and put it to this use and then they will continue to remain in that business because the investment is not very high. And similarly in many semi-urban locations where people may not want to use public transport, some may use two-wheeler to go on their own, some may use a small car, pre-owned car to travel on their own. At this stage with a little uncertainty into the future earning many people may decide that I need a vehicle but I do not want to invest so much into new, so therefore they may look for buying a pre-owned vehicle. Now when I say the pre-owned vehicle demand will go up one should not estimate that the pre-owned vehicle will replace the entire new vehicle buying.

Moderator: Thank you. The next question is from the line of Piran Engineer from Motilal Oswal Financial Services. Please go ahead.

Piran Engineer: Most of my questions have been answered. I just have couple; firstly you mentioned that you lost an opportunity of 150 GNPL correction because of COVID. Is that because you could not auction the vehicle or?

Ramesh Iyer: No, see ours is a very physical model where either customer comes to pay or we go to collect, and then suddenly everything comes to a grinding halt and the customer has the money but we cannot go and collect nor he is in a position to come and pay. There will be a very small percentage, which will come from repossession and auctioning of the vehicle and all that, but in rural India in tractors and kind of a product typically what happens is you bring back the tractor, they may even borrow from their family or whatever, and they come and settle the account. So these kind of settlements also could not happen during this period.

Piran Engineer: If it could not happen they would have been put on the moratorium, so ideally would not have?

Ramesh Iyer: They are already in NPA. They cannot be given moratorium. These are accounts, which are in 90 day plus, which get settled. See what happens they get municipality payment settlement, PWD settlement, contract bills from the state government get settled, so then they come and settle their dues. That is how the last quarter, especially March, is a very big month because all the government payment get released during those periods, and you see a lot of people settling their account during that period and that is the time when they also have a business demand, so when you take back their vehicle they come and settle. Now this could not happen, otherwise see typically what happens is if you look at any year for that matter, December end, our outstanding NPA number supposedly 100000, you will see them come down to 80000, 75000 numbers by March because those accounts get settled. So I am not talking of two EMI, one EMI they are not paying, so they would have anyway be frozen. I am talking about people who are in NPA would have normally paid, could not pay that is why the 1.5% difference will come.

Piran Engineer: Okay I got it and Sir if you could just help me reconcile the numbers above 25% of their customers did not take a moratorium, am I right?

Ramesh Iyer: Do not hold me by 25, I could be 22, it could be around that number.

Piran Engineer: Okay so the collection efficiency in April was still around 15% so there is still a decent number of customers who did not take a moratorium and still did not pay in April?

Ramesh Iyer: So you take the farmer when you told him that you take moratorium but this will be with interest, this is I would rather not take moratorium but come and pay you end of April or beginning of May when I get my harvest money. So that 25% will not reconcile to everybody surely will repay. The 25% did not take will have three or four category, some who has money who will pay, some who has money but will not use electronic means, but they cannot physically come and play, so they will continue to remain in outstanding, but did not take moratorium. There will be certain category of people saying why should I take moratorium and pay so much interest, I would rather pay you one month penal interest and come and pay you when things open up. So you will have mix of categorizing the people who are not taken moratorium, so please do not correlate people not taken moratorium should have all paid in April.

Dinesh Prajapati: There are tractor customers whose EMI may not fall due in April.

Piran Engineer: Then it would not be then the denominator of 15% calculation either. I do get you point. That is all from my end. All the best Sir.**Moderator**: Thank you. The next question is from the line of Tejas Mehta from Old Bridge Capital. Please go ahead.

Tejas Mehta: I have one question and then on reverse migration that we have seen, a lot of laborers have moved back from cities to back to their villages, so this is probably a challenge of two kind. One is whatever income that you would have transferred from cities to villages or to the home town, that will go away completely and that there would be an extra burden on their whole family while living in the rural belt, whether they are in the farming community or whatever it is. So in this kind of a scenario do you think that there would be stress in the cash flows of the rural belt and therefore the demand for vehicle they may push back or the repayment would be pushed much back to try and manage their own situation, which typically means that for you the recovery could take much longer than one would be expecting?

Ramesh Iyer: This assumes that lot of labor who were earning in cities, transport the money to rural to discharge liability that has been created in rural, that is a fundamental assumption or the money that gets transferred there is to acquire more assets. These are the two bases on which your question is dependent. But the labor who earns here does not earn so much that he sends money there to either buy assets or to discharge liability. These labor who sends money there is for the family to regularly survive and consume with that money. So the assumption of will asset buying suffer, will recovery suffer may not happen, but if you look at it a little more positively, if this laborers gone back to their respective hometown, they have all been used to locally during this farming situation as a laborer, so they have actually earn some money locally and even in yesterday I was seeing the Finance Minister addressing that MNREGA scheme they can also enroll there and they can start to earn something and all kinds of stuff. The third thing is if these are migrant labor from here, they will engage themselves only in labor, but if the migrant drivers and others have gone back, they may start buying some small vehicles for their daily livelihood, they may put an LCV, they may put a small Bolero type vehicle, pickup vehicle and they will start to earn something, so one way to look at it is that you can even push up demand in some pockets if the driver community who has gone back from here starts to buy the vehicle there. As far as the labor is concerned I am not able to see a situation that they were earning so much here that this money was being sent there for either repayment or for acquiring more assets. But definitely what can happen is, again my guess on this, these laborers income stopping from here can push that family into some kind of a need for borrowing from either microfinance kind of a body or from a money lender or from their families temporarily until the person get re-employed. So this kind of small ticket loan needs can go up to meet even their daily needs.

Tejas Mehta: Okay great and would you be able to shed some light on the activity at the APMC level currently? Have the activity levels have been good or they have been faltering at the APMC level?

Ramesh Iyer: I think again honestly I have not tracked it very closely, but these are some mixed news that you get, in some pockets they are very active like before, but in some pockets like outskirts of Mumbai, and Vashi, there seems to be a lot of restrictions. So I think you have to correlate it to we are closer to which town or city and what is the COVID situation in that location.

Tejas Mehta: Okay alright. Great Sir. Thank you so much.

Moderator: Thank you. The next question is from the line of Abhishek Murarka from IIFL. Please go ahead.

Abhishek Murarka: My question is, your business is basically going to remain cyclical if it is predominately vehicle related and in the past you have tried organically to do SME housing or consumer durable more recently, but the deal with organic efforts is that they generally take long and also dependent on the external environment. So in the current environment would you think of any inorganic mode to either make the standalone business more structural or to become part of some larger more structured business yourselves, any thoughts on that?

Ramesh Iyer: So look at, first of all culturally, any M&A opportunity we will look at should fit into our strategy and we should have had that as our intention to be in that business. So which means once again if you look at M&A opportunity, more or less we will look at around the same space in which we are there. Which means, if you have a problem, you are multiplying your problem by taking somebody like that. Now you say that no, that is not the route we want, to take let us get into something else altogether. Now there is something else altogether as an opportunity should be so large that it becomes a game changer for you, you cannot pick up a company with say 5000 Crores asset let us say they are in LAP, then what are you acquiring, that is not in your strategy because you are not got into LAP business and you are getting a size, which is not a game changer because you are running already 70000, 80000 Crores vehicle balance sheet, so 5000 will come and only takeaway some of your mind share of focusing on something of that type, so that is the reason we felt that is always good once you get to certain large size, it is good to organically grow and if you get an opportunity to acquire in the same space that you are with a high quality asset and in a good time, then one must look at.

Abhishek Murarka: Sir the other way to look at it could be that you become part of another structural business or larger business, where the cyclicality comes down….

Ramesh Iyer: Meaning you want somebody else to acquire is that?

Abhishek Murarka: What would you do to basically make your business less cyclical? Now acquiring as you said is obviously challenging, is the other option something that you are thinking about at all or is that not an option at all?

Ramesh Iyer: I think that we are not looking at that as an option. I think we still think that the marketplace in which we are, the semi-urban, rural market, there is enough head groom to grow in the product lines that we are in. We are still not controlling the whole market with a very large market share or whatever. And we would look at, over a period of time more products to our customers, which in a way could either reduce our cost of operations or could somewhere begin to become like an anti-cyclical approach. But I think with a large balance sheet we would like to focus on this and remain a leader in this business because we have now learnt also how to handle this cyclic issue, it is not that it is killing the balance sheet, we have not found it difficult to raise money, our ratings are not suffering right. Yes, we do go through this pressure of earning and once we bring some stability to that with a better mix, because it was towards let us say a tractor or the UV kind of a business, we then added cars to it, it will slightly balance it, then we added commercial vehicle to balance it, then construction equipment, then pre-owned vehicle. Now we will also balance it by evening it out geographically. So two ways of de-risking we will do is to make each product of a certain size, and each geography to be of a certain size, then it will start playing the de-risking model.

Abhishek Murarka: Sure and any capital you would be requiring additionally this year?

Ramesh Iyer: We would love to raise capital and we pray that the market conditions improve fast for us to be able to do that. With kind of growth rate what will be do with capital, we will have to wait and see.

Abhishek Murarka: Sure okay. Thanks Sir.

Moderator: Thank you. The next question is from the line of Shweta Daptardar from Prabhudas Lilladher. Please go ahead.

Shweta Daptardar: Sir you have expressed your optimism on pre-owned vehicle segment and that also reflects in our increased share in the past few quarters now, but if I even look at the competition, most of them have been vying for this particular business segment. So how is the competition flaring up for us, how are we combating this, if there is any specific geographies that we are targeting and how about the market share vis-à-vis other players?

Ramesh Iyer: So I will just give out one number and that would explain all your questions. I think we will see something like 200000 customers mature let us say every year or 150000 customer mature every year for us, who try to sell their vehicle and buy a new vehicle. So we have got a very strong program now in place to transact for that customer. If I am a customer of Mahindra Finance wanting to sell my vehicle, then Mahindra Finance will help me to sell the vehicle to whomsoever is wanting to buy, which we will finance and we will also then look at the customer who is selling as a customer to buy the next new vehicle. So with one transaction we are able to get 1.5 vehicle kind of a business. So that is going to be one approach and when you talked about competition, I think if you look at urban center and if you look at using of intermediaries and brokers, then there is enough competition. But we are in a semi-urban, rural market where even today the transaction is between customers to customers and the broker in between is just connecting of two customer and not really owner of acquiring this vehicle and trying to sell like urban city. So our participation is being the link between the seller and buyer and to start with, we want to do this with our existing customer, who are in business to sell their vehicle and then buy a new vehicle and that number is very, very large. And the third of course very clearly is, since we have so much of relationship with all the OEM and the exchange program that they run, when they try to sell their exchanged vehicles, that becomes an additional business volume, which we will try to transact.

Shweta Daptardar: Sure, how about the car segment, what percentage of the car segment is led by aggregator, because due to the COVID related outbreak, there would have been large labor exodus, which is you highlighted, what percentage of the car portfolio would be aggregators?

Ramesh Iyer: Sandeep you are in this call, you can answer this question, Ola, Uber, Zoom, Rapido, together will be what 8% I do not know?

Rajnish Agarwal: Of the total portfolio it is 10%, so we have 2 million customers so roughly 80000-90000 customers will be aggregator customer.

Ramesh Iyer: 8%, 9% will be aggregator model and not all concentrated in just Mumbai and Bengaluru, they are widespread across various cities.

Shweta Daptardar: Sure.

Moderator: Thank you. The next question is from the line of Gurpreet Arora from Aviva Insurance. Please go ahead.

Gurpreet Arora: Sir do you think the three-month moratorium is sufficient for your customer set and related question to this, when you say 75% of your customers have taken moratorium, have all 75% taken full three months moratorium or there is a variation. That is one, second question is why you have not taken moratorium from banks. And last question is how far we away from 2% opex to asset ratio, which you have highlighted earlier?

Ramesh Iyer: You are the smartest of the question raised because they said you have to come back in the queue you have raised all questions together. Okay let me answer the opex thing first, 2% that we are aiming at is really a dream and a stretch, and we believe that in the last time also I said that it is not all overnight, but in a year or two we will work hard towards that, but to some extent that the asset growth also has to help us in that. If asset continues to decline, I think the cost will look to be the same or steeper. So as I outlined five or six initiatives are areas where we are looking at when we get the full benefit of the technology intervention, digital use, I think the cost for sure will come down. When we get the benefit of cross selling that we are planning to do for pre-owned vehicle of existing customer and create more customers, that will bring down the cost for sure. So I think 2% we would continue to remain focus and you will see at every stage there is a decline in cost visible, which will give directionally to reach the 2% so that is for sure. What was your second question? I am sorry this was one?

Gurpreet Arora: Sir the first question was that, is it three-month moratorium period sufficient for your customer?

Ramesh Iyer: My personal opinion on this moratorium should not be the approach to customer at all because there will always be a fear of cultural change in customers' mindset to repay. So in fact we have, even as an association, we are pushing the regulator to look at reschedulement as a possibility so that you really look at the need of a customer and it could be very different for different customers. So is moratorium three months good enough for commercial vehicle, definitely not. For tractor, more than adequate. So I think do we all believe that on May 31, the moratorium period ends and from June 1, everybody is going to repay on time, I want to tell you that that is never going to be a reality. It will take people another 50 days, maybe 90 days or whatever> So from that point of view 90 days is insufficient, but moratorium is definitely not the answer, rather give more time by rescheduling the customer and understand his real need, rather than putting this habit of not to pay types. Because if somebody takes another three months moratorium, but t starts to earn, he will still not come and start to repay. But if you reschedule somebody's account, you will actually look at when you see likely to start to earn and you will give him only 45 day moratorium, in some cases you may even give 120 day moratorium. So the short answer is 90 is not good enough, but moratorium definitely is not the answer.

Gurpreet Arora: Sir why have you not taken moratorium in your bank loans?

Ramesh Iyer: No, we have sufficient funds, our cash flow situation, to be able to repay our liability. So therefore we do not feel it necessary to take moratorium. You would rather raise fresh loan and which could come to you at a new rate. Whereas if you take moratorium, you are extending the same loan, which could be contracted earlier at a higher rate, so you get two benefit, one you prepay on time and maintain your track record, second if you raise fresh loan as a new rate rather than recasting the old loan at old rate.

Gurpreet Arora: Got it. Thank you so much Sir and all the best.

Moderator: Thank you. The next question is from the line of Anish Jobalia from Banyan Capital. Please go ahead.

Anish Jobalia: Thanks for the opportunity. So I just wanted, on the tractor segment you have seen a lot of traction. So my question is like what is driving this, whether this demand that you are seeing is a temporary or perennial, and whether this demand is across geographies?

Ramesh Iyer: So across the geography or not, it may not be all states, but relevant, major states are showing the demands whether it is UP, whether it is Punjab, MP, parts of Maharashtra, parts of Rajasthan, I think clearly, Karnataka, we are seeing relevant states are showing the demand. And it is at the back of the Rabi crop being good and Kharif expected to be good after Monsoon, so it is a farm driven and I said somewhere in between, we still do not see haulage application or a contracting segment buying tractor big time yet, but definitely the farm community is buying, so based on good harvest now and expected good harvest the next season.

Anish Jobalia: Second question is, I just wanted views on the housing product, just some comments around that would be helpful?

Ramesh Iyer: Housing, comments on..

Anish Jobalia: Housing subsidiary.

Ramesh Iyer: Housing subsidiary, in fact even in one of the earlier calls we had mentioned and I think I do not know if Anuj Mehra, the CEO is in the call, but we had consciously decided to go slow on disbursement and more focus on recovery because that was one area of concern and largely caused from Maharastra and our assets were also little concentrated in Maharashtra. As we speak now, we were, like Mahindra Finance, even in housing we were seeing substantial improvement commencing to happen in the fourth quarter and then we hit this unfortunate time, and they have also taken a view to make higher provision in order to be better covered. We do believe that with the monsoon being good and harvest this round has been good, once Maharashtra opens up, we would see corrections beginning to happen even in the housing business. We are now looking at opportunities of growth in states which are in the green zone and they have been able to source funds from NHB in the refinancing route, etc.. So you will start seeing some growth beginning to happen there, but the focus will continue to remain in bringing down the net NPA to even lower than where they are, maybe another 2% to start with, will be the first benchmark attempt and that we believe will happen as Maharashtra opens up post this COVID lockout.

Anish Jobalia: Okay thank you.

Moderator: Thank you. The next question is from the line of Vivek Ramakrishnan from DSP Mutual Fund. Please go ahead.

Vivek Ramakrishnan: I think one of the other questions got answered especially one Abhijit Murarka asked the question that I had, is it time for you to look at product adjacencies that you might have been considering, possibly even start buying portfolio from other NBFCs, who will be struggling for liability, will not have the strength that you have?

Ramesh Iyer: When you say adjacency, what product comes to your mind quickly?

Vivek Ramakrishnan: Sir like example, you mentioned microfinance and you are very well in the rural, in two-wheeler finance for example, a lot of your customers are going back there, may be buying scooters and so on, so those kind of areas or buy out somebody who is performing portfolio?

Ramesh Iyer: Two-wheeler is something that we will look at because for two, three reasons. One is ourselves starting to put together a strategy for how to get into two wheelers because we did see large number of our own dealer relationship are also in two-wheeler business and we did see that as one possible opportunity. In this around we do see two-wheeler bounce back as a next best possibility. And third is you are right, that our own existing customers, all of them have a two-wheeler and we do believe that they may be the ones who may look for adding more two-wheelers to their families if they have believed to travel alone. So I think two-wheeler is something that we were to look at. Microfinance is something, which long back we had gone deeper to understand whether we should or we should not. If at all we get into microfinance, we would rather create a vertical to get in and become of a type, rather than trying to buy some small portfolio and else.If at all we have to do some portfolio we would rather look at refinancing some microfinance NBFC, but nothing of that type at this stage. So any business that is not in our roadmap for growth or as a strategy, we would rather not look at it, and two wheeler comes within the vehicle family and a lot of ecosystem support available, so we may look at that as a positive.

Vivek Ramakrishnan: Thank you Sir. Good luck.

Moderator: Thank you. We take the last question from the line of Subramanian Iyer from Morgan Stanley. Please go ahead.

Subramanian Iyer: Couple of questions from my side, so one is what was the loss of business days in the month of March, from a collection perspective given that the lockdown started pretty late in the month. And the second question is, what are the outcomes that you are budgeting from the collection efficiency perspective in the coming months?

Ramesh Iyer: The number of days that we lost, while we have been look at it from the lockdown time to the month end, it would have been 12, 13 days, but you know the beginning of this problem I had already commenced, so I think in terms of active days lost in March would have been at least 15, 18 days, if not more, and that is very substantial from a March perspective given normally things start to shape up from March 10-12, and you know most towards March 25-28, for things to settle down. So may be about 15 or 20 days is what we lost in March, that is very clear. In terms of efficiency, as I said, April our expectations are zero, but we add about 10% odd, 14% or whatever collection. This month we do expect that it would be going beyond 20% and gradually I think each month they could add about 5%, 10% before we can say it has at least reached about 70%, 80% by September, October or so.

Subramanian Iyer: The last question is just more of a number question when I look at your IRAC Stage 3 provisions, the employed coverage works out to about 37% and your stage 3 coverage as per the Ind-AS is about 31%, so what does it imply exactly in the sense that does it mean that these loans are quite aged because the IRAC provisioning is well over 30%, which is generally, basically these assets are in year two?

Ramesh Iyer: Technically Rajesh can answer better, but in Ind-AS, what it really reflects is that, we do not expect the loss to be higher than this is what we cover under Ind-AS for sure looking at both historic as well as way forward.

Rajesh Vasudevan: Under IRAC, you have to compare the total provision, I think you are taking only the NPA provisioning, which is not correct. Here the Stage 2 provisions are quite higher in Ind-AS, so when you see, you have to compare total, even RBI says you to compare at a total level and not at a stage level.

Ramesh Iyer: IRAC gradually moves from Stage 1, 2 to3, whereas in Ind-AS it comes to Stage 3 because one and two is not recognized for calculating the coverage.

Rajesh Vasudevan: As standard asset requires only 0.4% provision. So if you see on a total level, the provision under Ind-AS is more than IRAC and we have not created an impairment reserve as required under new guidance issued on March 30.

Subramanian Iyer: The point on the total coverage is taken, my question was more from a perspective that I was a bit surprised that even under Stage 3 IRAC provisioning is…?

Rajesh Vasudevan: These are two different methods, here with the aging you increase your provision under IRAC whereas under Ind-AS it is a common rate what we applied to all.

Subramanian Iyer: Thank you.

Moderator: Thank you. I now hand the conference over to Abhijit Tibrewal for closing comments.

Abhijit Tibrewal: Thanks Steven. Many thanks to the Mahindra Finance Management and all the other call participants for a very vibrant discussion today. Have a great evening. Thank you all.

Moderator: Thank you. Ladies and gentlemen on behalf of ICICI Securities Limited that concludes this conference. Thank you all for joining us. You may now disconnect your lines.